
CCTA SUMMIT
5 JULY 2022
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CONSUMER CREDIT
TRADE ASSOCIATION

INTRODUCTION & WELCOME
CCTA

MANAGING FOR RISK & OPPORTUNITY THOUGH THE COST-OF-LIVING CRISIS
TRANSUNION

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MANAGING FOR RISK AND OPPORTUNITY
THROUGH THE COST-OF-LIVING CRISIS

Chad Reimers, Senior Director: Market Strategy
TransUnion

TransUnion

Managing for risk and opportunity through the cost of living crisis

5 JULY 2022

CHAD REIMERS

MARKET STRATEGY, TRANSUNION (UK)

TransUnion is a
global information and insights company that

makes trust possible

By ensuring each consumer is reliably
represented in the marketplace

We call this

Information for Good.

The UK faces a cost of living crisis with stresses expected on all components of disposable income

Inflation is at its highest rate for 40 years

9.1% in the 12 months to June 2022; forecast to hit 10.25% by year end 2022 [1] (ons)

Energy costs face unprecedented rise

Price-cap change in **Apr-22 sees a rise of 54%,** with those on default tariffs paying by direct debit will see an increase of £693 from £1,277 to £1,971 per year [2] (Ofgem). Ofgem warning that the ***Oct-22 energy price cap could rise to 42%.***

Household income face additional pressures

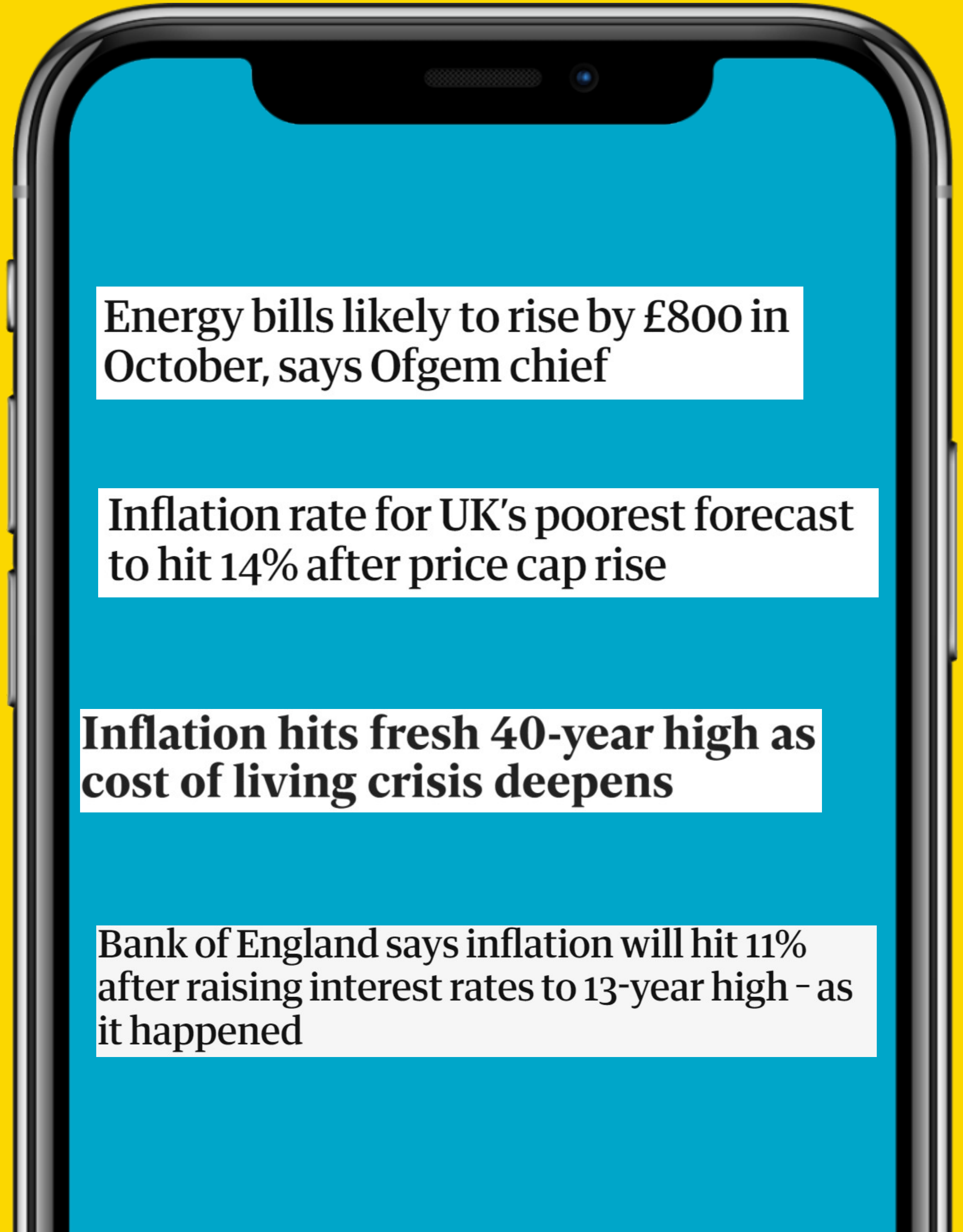
Additional 1.25% in National Insurance contributions Apr-22; pay rises below COL rise [2] (GOV.UK)

Base rates have increased to 1.25% as of Jun 2022 [1] (BofE)

Now at their highest level since March 2020;; first time since February 2009 that the base rate has risen above 1%

Wider expenditure increases also expected, rising fuel increasing almost daily due to Russian oil & gas sanctions

ONS says a quarter of households in survey are struggling to pay bills such as fuel and food



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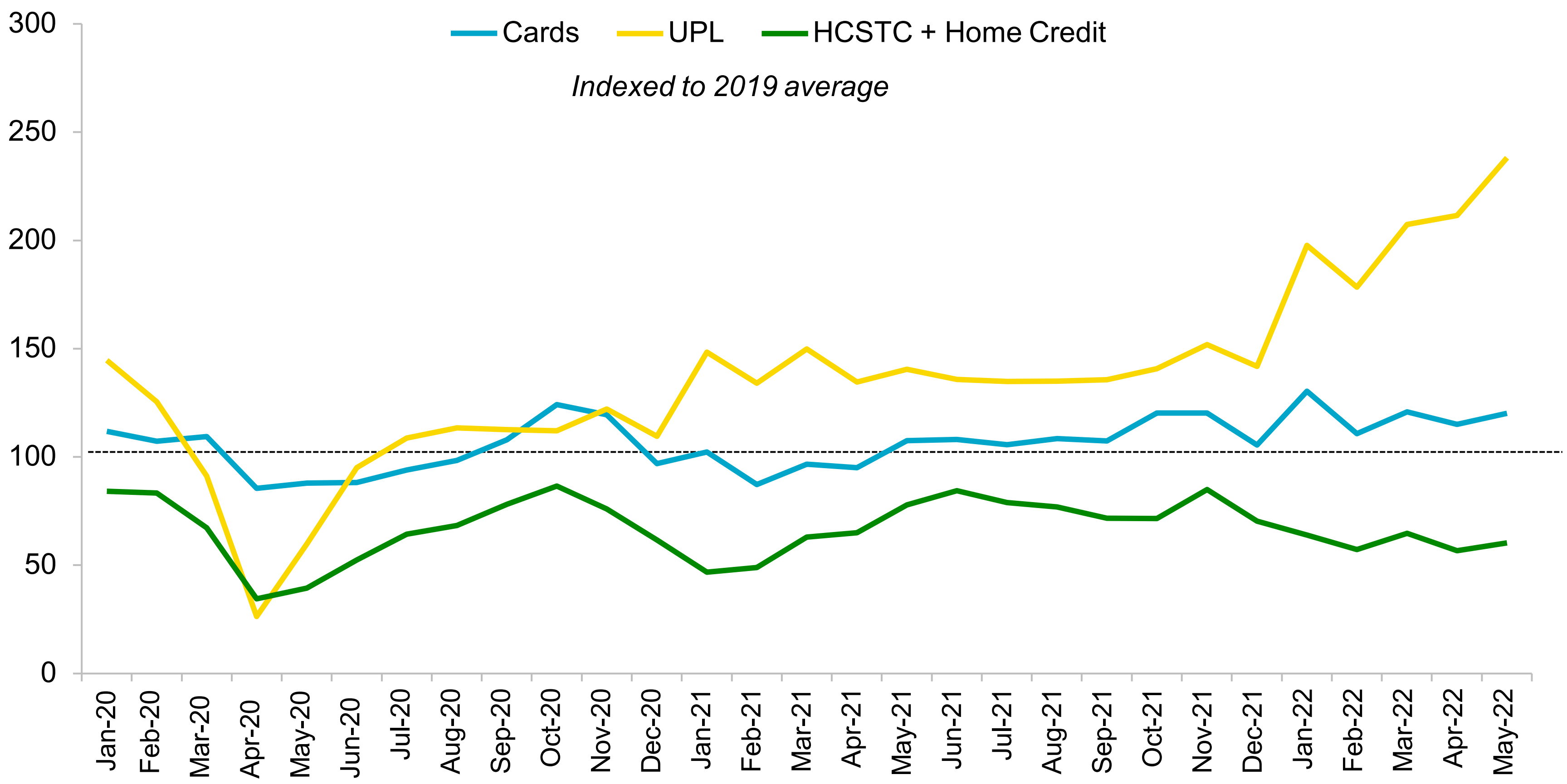
Let’s start with a market overview…

Unsecured lending has driven recovery in overall financial services demand, however HCSTC + Home Credit have lagged

Financial Services credit enquiries (with TransUnion; selected portfolios)



Continued acceleration in demand for unsecured lending

HCSTC + Home Credit normalised for exits; slower recovery to pre-pandemic levels

No direct evidence yet of demand-uptick due to COLI-context

Not shown - Secured **(mortgage/ auto) demand high through 2021, with recent slowdown**

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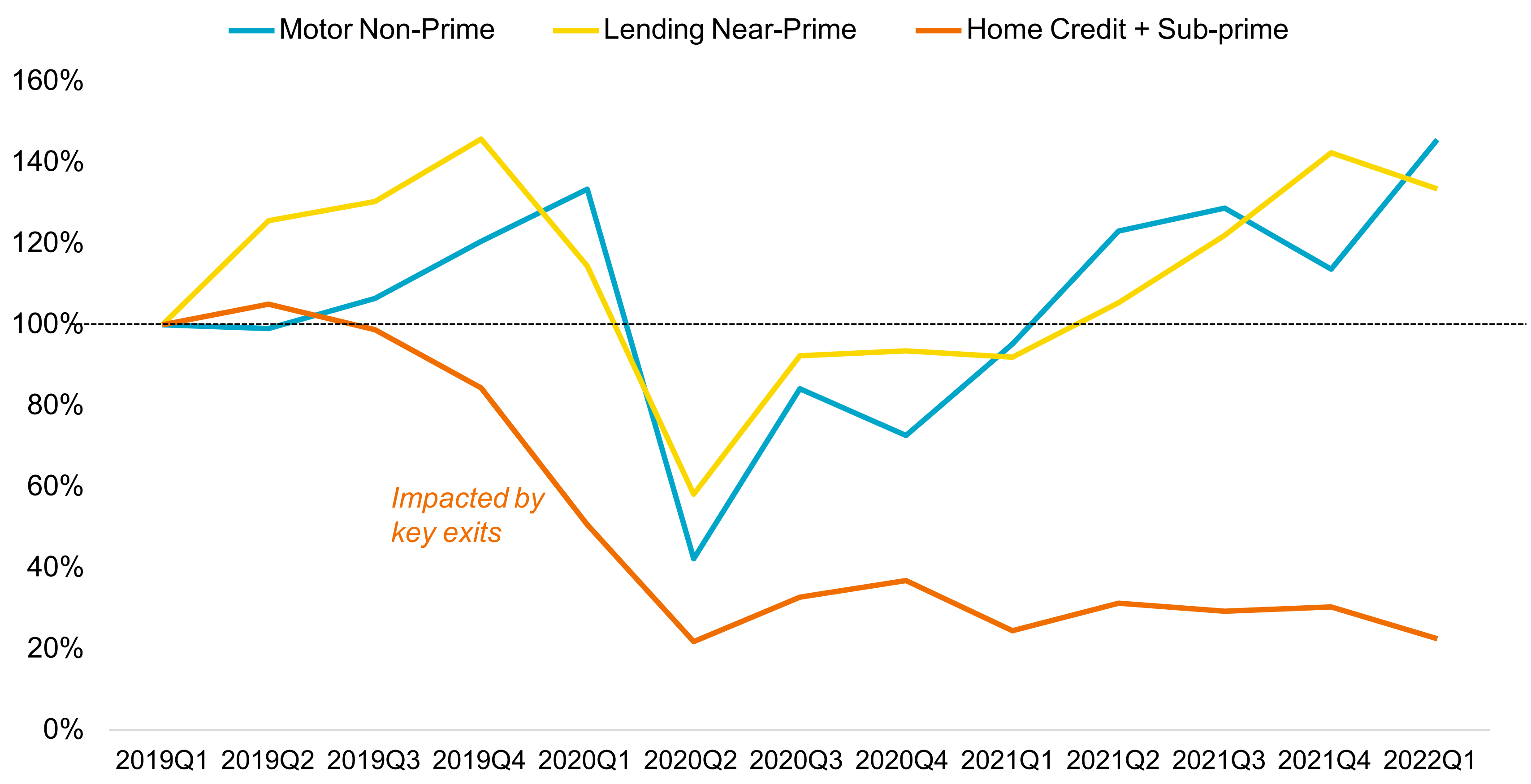
Source: TU credit application search data (indexed to 2019 average); affordability and credit enquires

Near-prime lending and motor recovering from pandemic period, in line with demand; HCSTC/Home Credit relatively stable past 18 months

New accounts originated, per quarter (indexed to Q1-19)



Supply (new accounts) appears to be moving closer to demand; where a gap appeared to exist in 2H-21

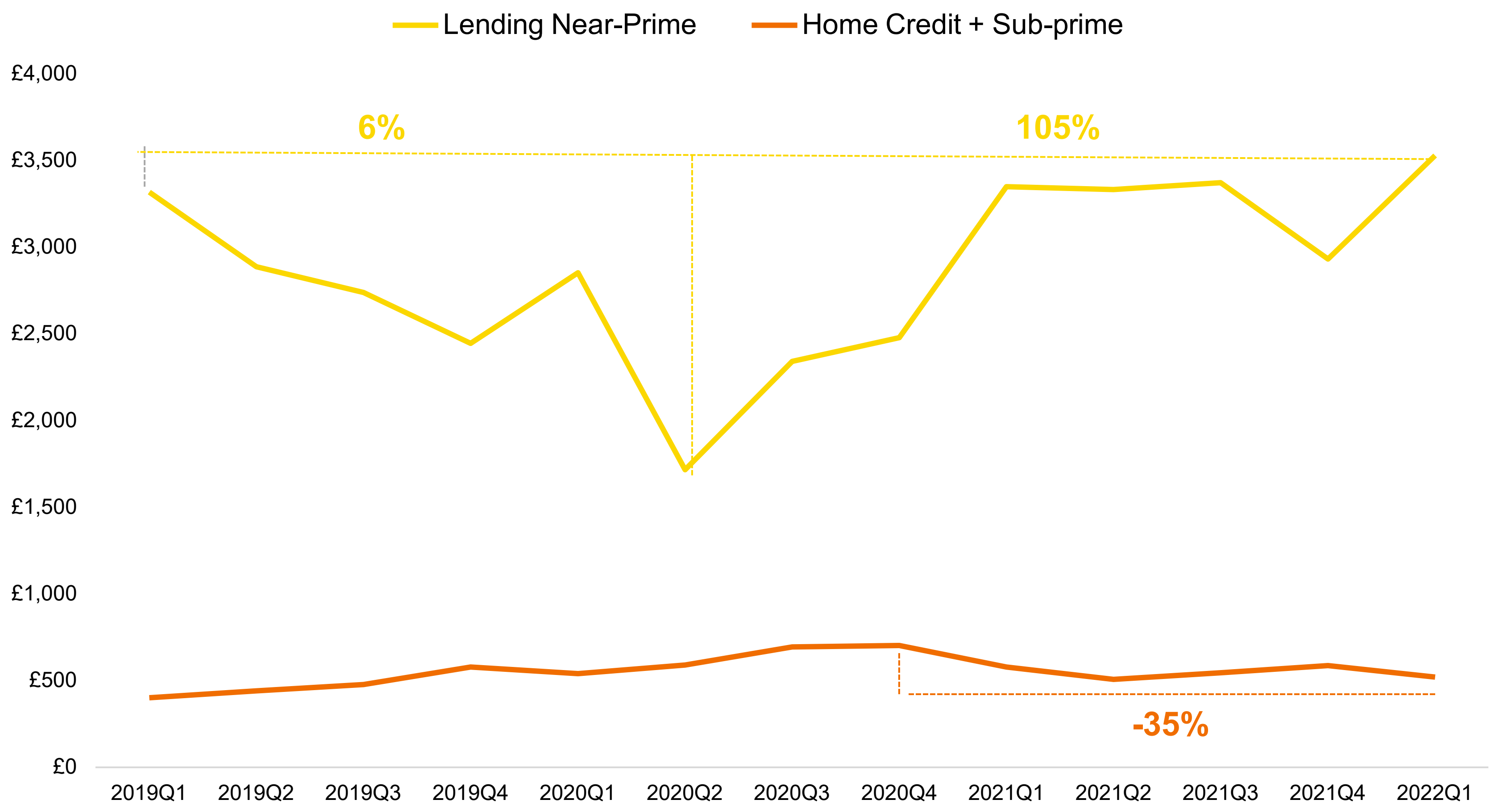
Reduced HC / Sub-prime potentially shifting consumers to near-prime lenders, alternatives (BNPL, Credit Unions), or increasing under-served segment

Non-prime Motor recovering, potentially due to competition and changing consumer preferences

Source: TU Consumer Credit database

Strong increase in opening balances granted in near-prime lending, though HCSTC/Home Credit remains low

Average first reported balance, indexed to Q1-19



Higher opening balances potentially a reflection of increased credit need (eg: link to affordability pressures)?

Or… is it a result of higher confidence and a return to pre-pandemic trends?

Most likely a reflection of polarised consumer segments… which may extend further

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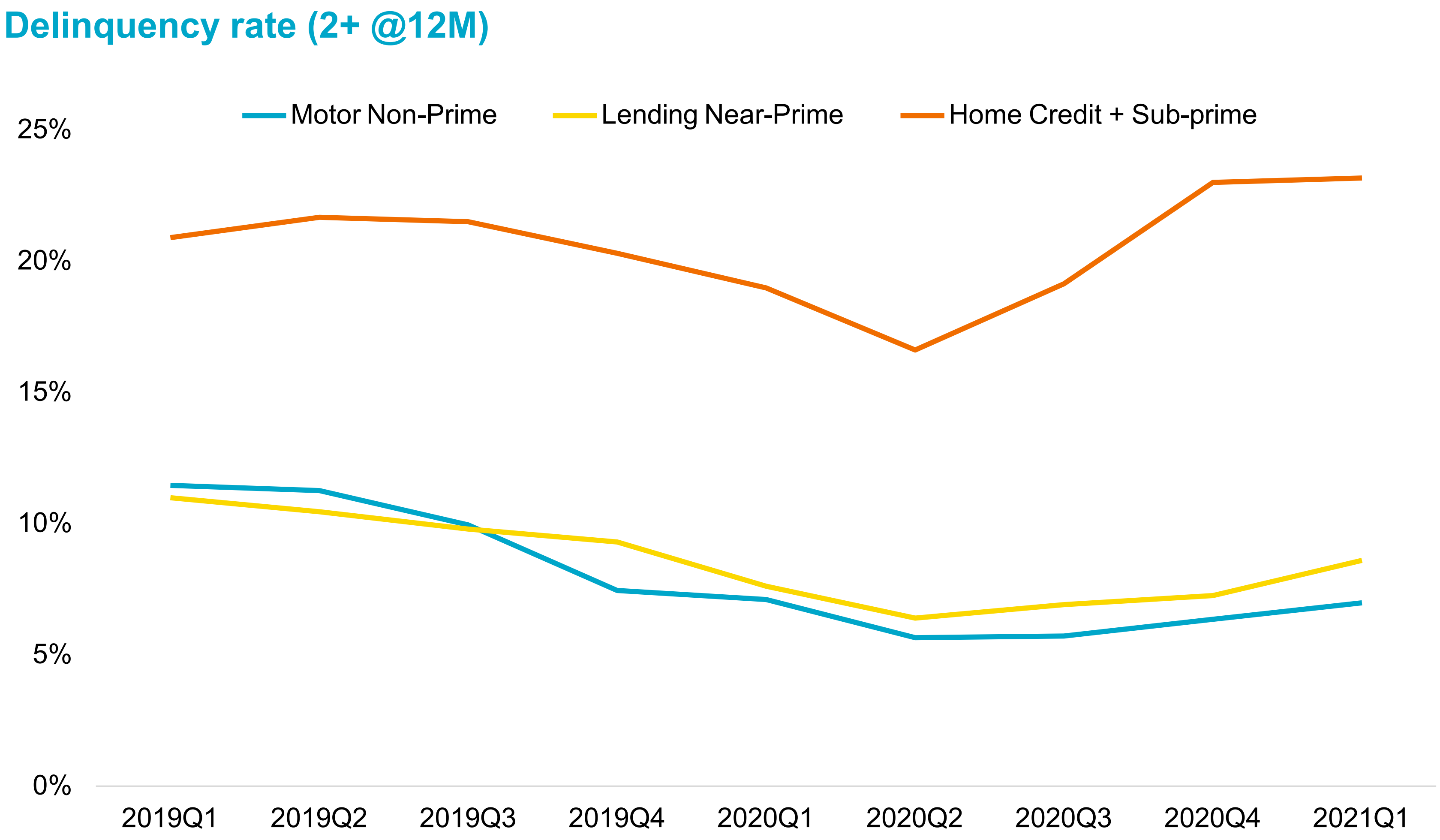
Source: TU Consumer Credit database

After benefitting from government support and debt pay-downs during the pandemic, recent months have seen increases in delinquencies



Home credit and sub-prime delinquencies have increased above pre-pandemic rates… but is this primarily linked to reduced supply (and stock maturing)?

Near-prime lending and non-prime Motor ticking upwards in last six months

Not shown **– other portfolios remain low but upticks in recent months, particularly Card and Unsecured**

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Source: TU Consumer Credit database

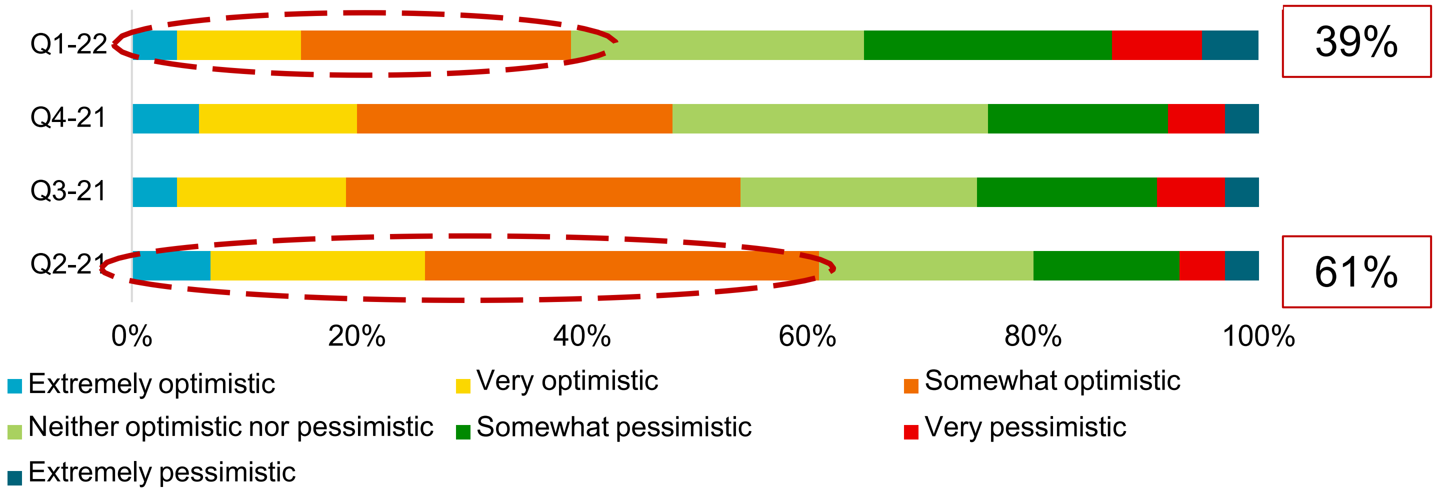
Now, what's the perspective of the UK Consumer?

TransUnion's Q1-22 Consumer Pulse highlights the shift in consumer sentiment and concern re COLI

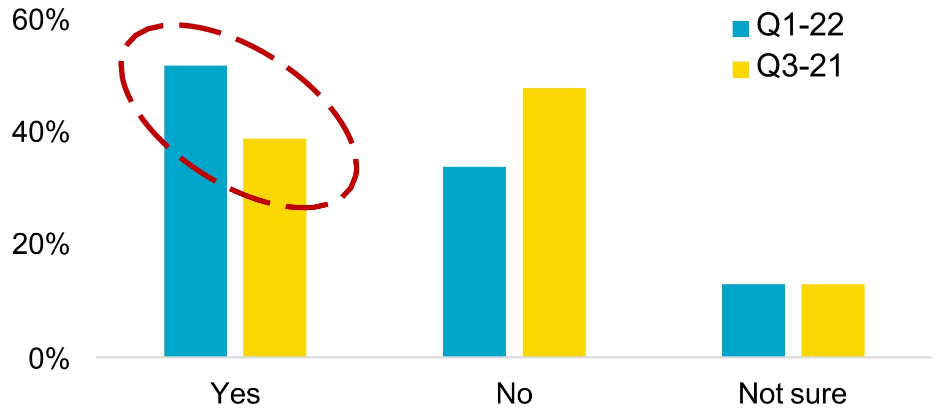
Increase in consumers expecting to be unable to pay current commitments in full

20% Q2-21 → **26%** Q1-22

How optimistic or pessimistic are you about your household finances in the next 12 months?



Consumers who are 'extremely' or 'very' concerned about inflation has risen from 35% in Q3-21 to 50% in Q1-22 … and… consumers are planning to make changes to purchasing behaviour



Source: TransUnion Consumer Pulse, Q1-22

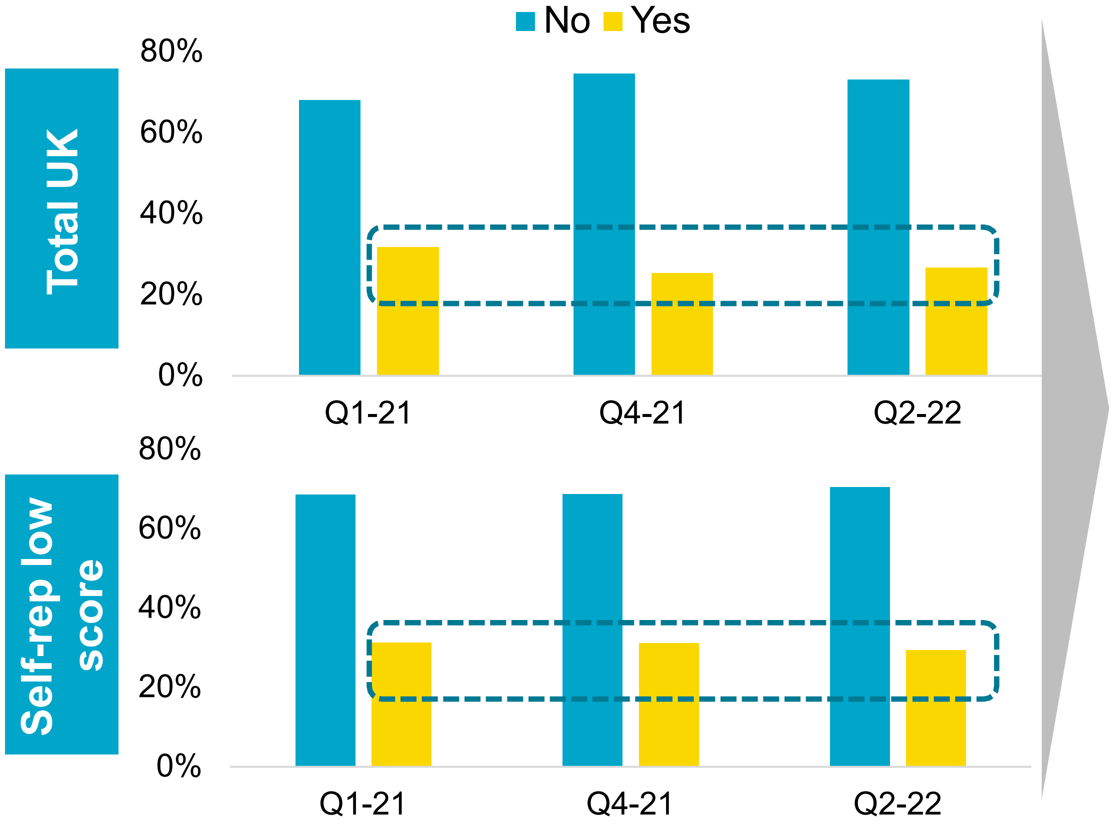
TransUnion

TransUnion

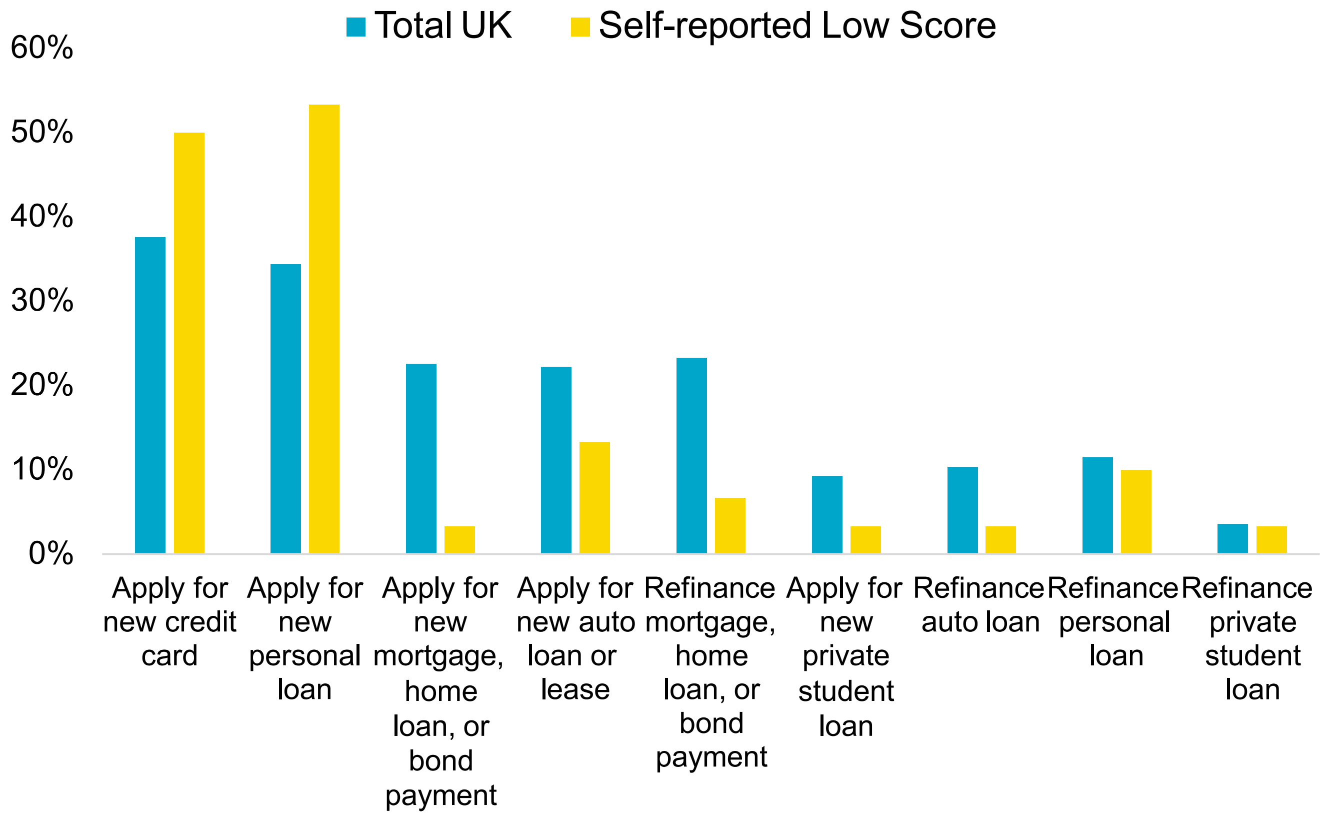
We've also explored trends based on respondents' *self-reported* credit score to understand consumer perception differences

Segments have similar appetite for credit, with primary demand for new credit card and loans

Are you planning to apply for new credit or refinance existing credit within the next year?



Which of the following are you planning to do within the next year?



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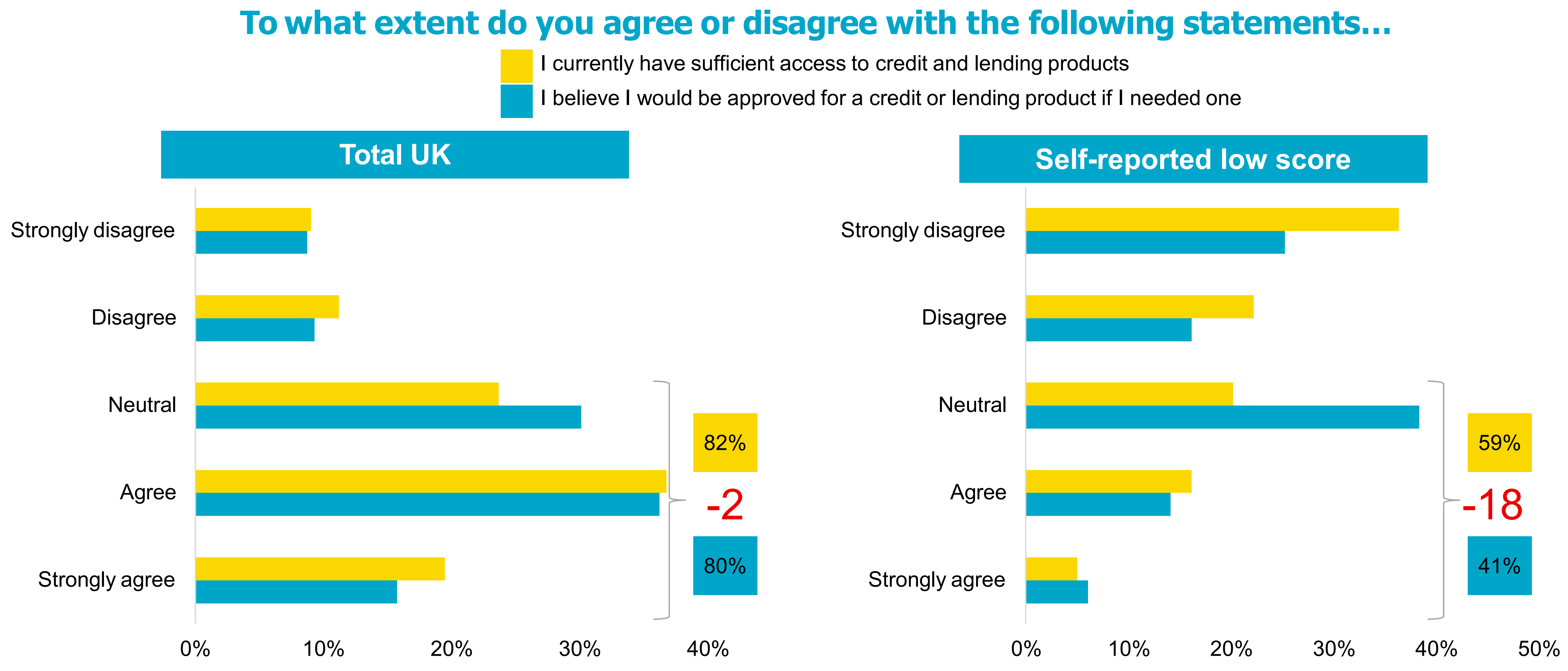
Source: TransUnion's Consumer Pulse study, Q2-22

However, there remain key challenges re access to credit and perceptions on likelihood of approval



Source: TransUnion's Consumer Pulse study, Q1-22

Now let’s turn to how cost of living is impacting the market…

Multiple stresses on disposable income will materially impact the scale of financial stress

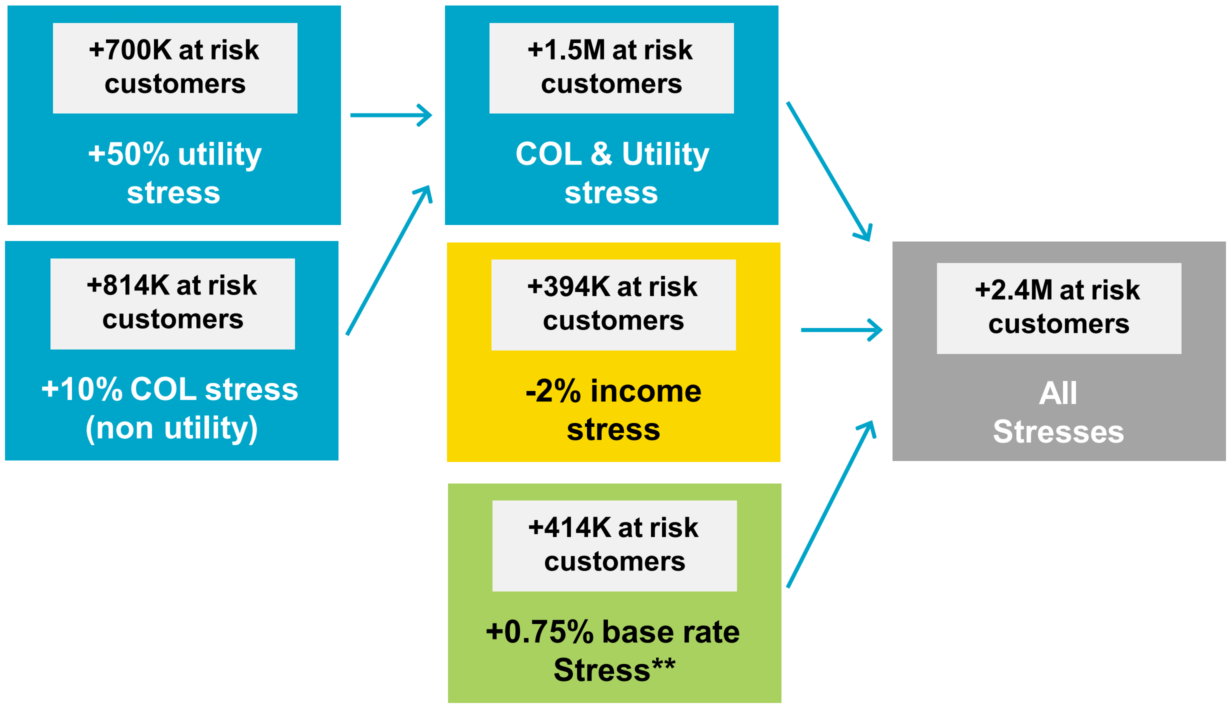
Energy price increase
Price cap increased in Apr-22; further increases expected

Inflation at a high
Increased to it's highest level in 40 years

National Insurance increase
Increase of 1.25p in the pound in Apr-22

Base Rate increase
+1.25% with multiple recent increases

2.4M additional consumers could suffer financial difficulty following energy, inflation, NI and base rate stresses



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* Results based on 10M UK random sample extrapolated to total UK
** +5% also applied to rental payment

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Given customer-level and portfolio-level stresses, lenders will face several implications across the lending life-cycle

1. ACQUIRE

- Targeting sustainable growth
- Polarised demand: increased credit-hungry, potential under-served
- Changes in origination profiles, inc diverging affordability profiles:
  - holistic income view (eg: +ve / -ve)
  - granular / dynamic expense view (eg: COL)

2. MANAGE

- Identifying the right segments for growth opportunity
- Repeat lending: changes in behavior, income, risk
- Understanding portfolio stress (and opportunity)

3. RECOVER

- Financial difficulty and increased arrears
- Pre-delinquency treatments
- Empathetic engagement

So, what actions can lenders take?

A structured framework is recommended to develop a holistic, practical response to current COLI challenge

1. ACQUIRE → 2. MANAGE → 3. RECOVER

A Portfolio Insight and Diagnosis

B Strategy and Treatment Design

Operationalise and Execute through Data (non-exhaustive)

C Optimise Income Verification - including disposable income and COL controls

D Consumer education & financial support

Analysis of Income Change

Enhance income assessment (and expenditure)

Transactional Data Assessment

Dynamic affordability and stressed scenarios and treatments

A Portfolio Insight and Diagnosis (customer-level): COLI scenarios can be stress-tested, using robust industry income data

- #$↑ Unsecured Payments
- Mortgage Payment
- Cost of Living
- Rent

Vs.

- External Income View

Energy Payment Scenarios		
RAG_Energy_5	+10% stress on monthly energy payment	Green
RAG_Energy_10	+15% stress on monthly energy payment	Amber
RAG_Energy_15	+20% stress on monthly energy payment	Red
Other Expenditure Payment Scenarios		
RAG_COL_5	+5% stress on monthly COL payment (non-energy)	Green
RAG_COL_10	+10% stress on monthly COL payment (non-energy)	Amber
RAG_COL_15	+15% stress on monthly COL payment (non-energy)	Red
Mortgage Payment Scenarios		
RAG_MG_5	+5 bps stress on monthly Mortgage payment	Green
RAG_MG_10	+10 bps stress on monthly Mortgage payment	Amber
RAG_MG_15	+15 bps stress on monthly Mortgage payment	Red
Income Scenarios		
RAG_Income_2	2% reduction in net monthly income	Green
RAG_Income_5	5% reduction in net monthly income	Amber
RAG_Income_10	10% reduction in net monthly income	Red

B Strategy and Treatment Design: Multi-factor segmentation can better identify risk, and opportunity pockets

Segmentation: Disposable Income (current v stressed)

Stressed Disposable Income + 50% Energy Payment →

Current Disposable income ↓	Green > 10%	Amber 0-10%	Red < 0%
Green > 10%	43.0M	0.6M	<0.1M
Amber 0-10%		1.6M	0.5M
Red < 0%			9.4M

9.9M — **Already Struggling**
Consumers already with disposable income challenges where further stresses could cause further financial difficulty

1.6M — **Susceptible to Further Stress**
Consumers who will remain "on the edge" but wider stresses, e.g. NI, Inflation, are likely to be detrimental

0.7M — **Fuel Poverty Risk**
Where Energy increases alone are likely to cause material affordability pressures for the consumer

Segmentation: Disposable Income vs Affordability Risk

Indexed Bad Rate*	Affordability Score: < 520	520-560	560-620	620+	Total
Disposable income					
-ve £500+	6.6	3.2	1.0	0.2	2.2
-ve £250-£500	5.7	2.7	0.6	0.2	1.9
-ve £0-£250	5.9	2.3	0.6	0.1	1.7
£0-£250	5.7	2.0	0.7	0.1	1.5
£250-£500	5.5	2.1	0.6	0.1	1.3
£500-£750	5.2	1.8	0.4	0.1	1.2
£750-£1000	5.3	1.8	0.4	0.1	1.1
£1000+	4.8	1.4	0.3	0.1	0.6
Total	5.4	1.8	0.4	0.1	1.0

** Bad definition of 2+ after 12 months. Indexed to portfolio baseline*

(orange)	Susceptible to disposable income stress and likely to struggle
(yellow)	Susceptible to disposable income stress but resilient

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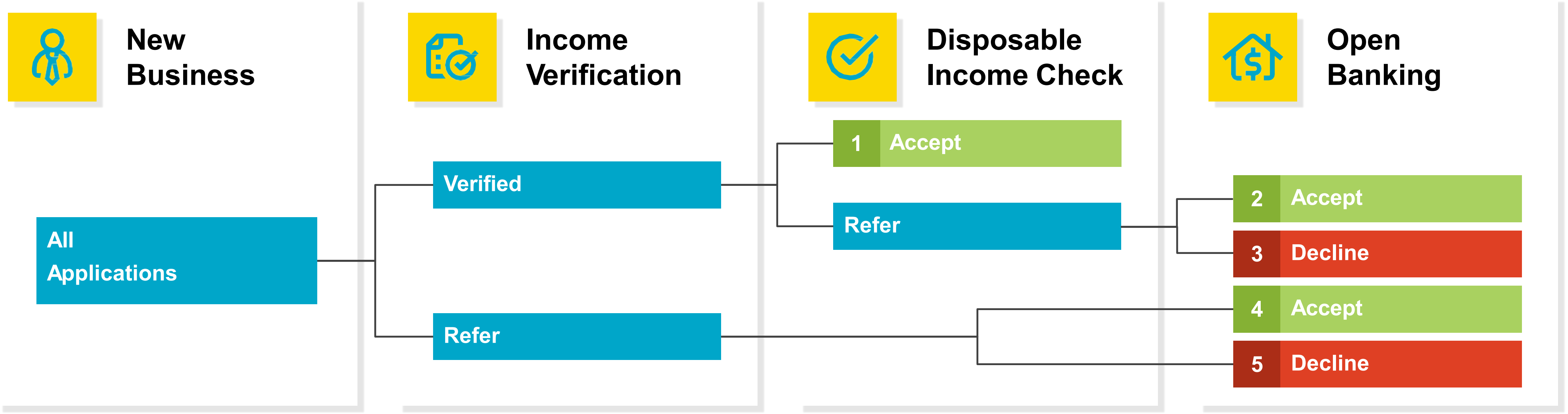
Source: Results based on 10M UK random sample extrapolated to total UK

C Optimising Income Verification: Disposable income checks can augment decisioning to optimize verification



1. Acceptable disposable income to afford new credit payment under stressed COL scenario
2. Affordability pass following refined COL assessment using Open Banking data
3. Open Banking validation that payment is unaffordable in view of I+E assessment
4. Open Banking used to verify income & COL, credit payment from credit check – payment affordable
5. Open Banking used to verify income & COL, credit payment from credit check – payment unaffordable

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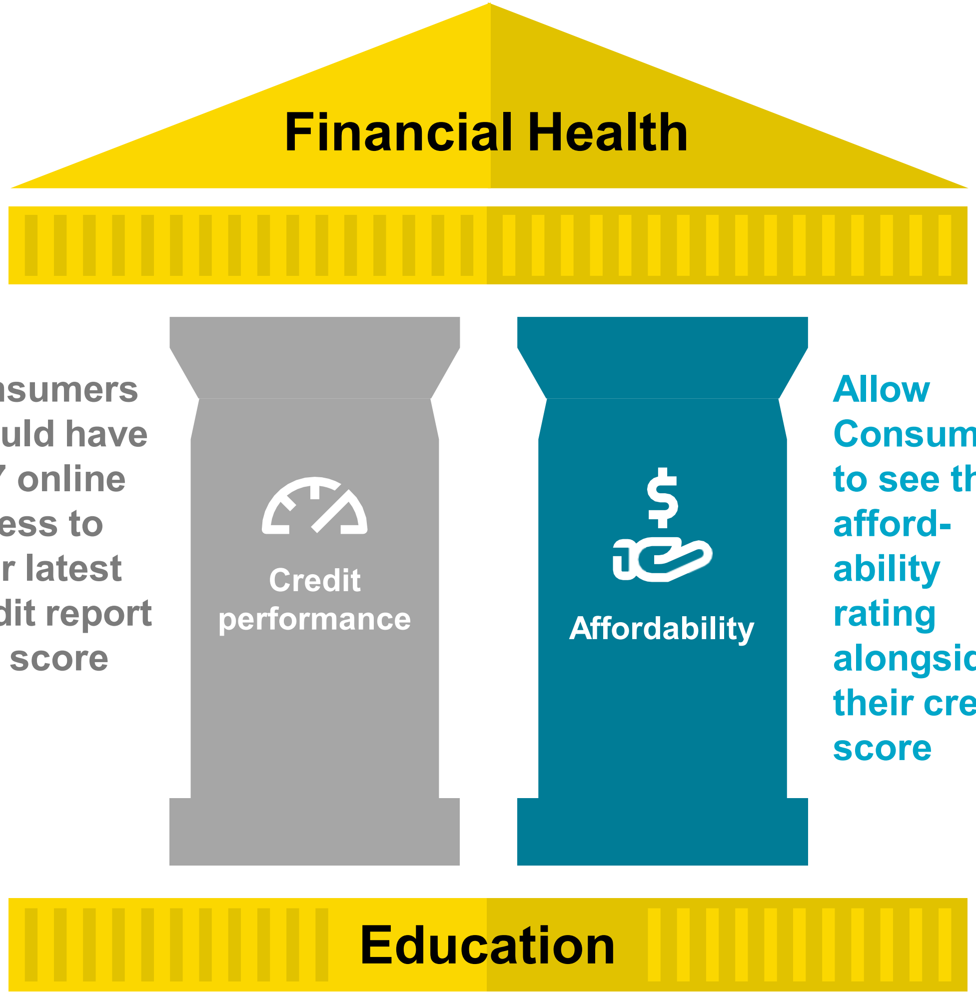
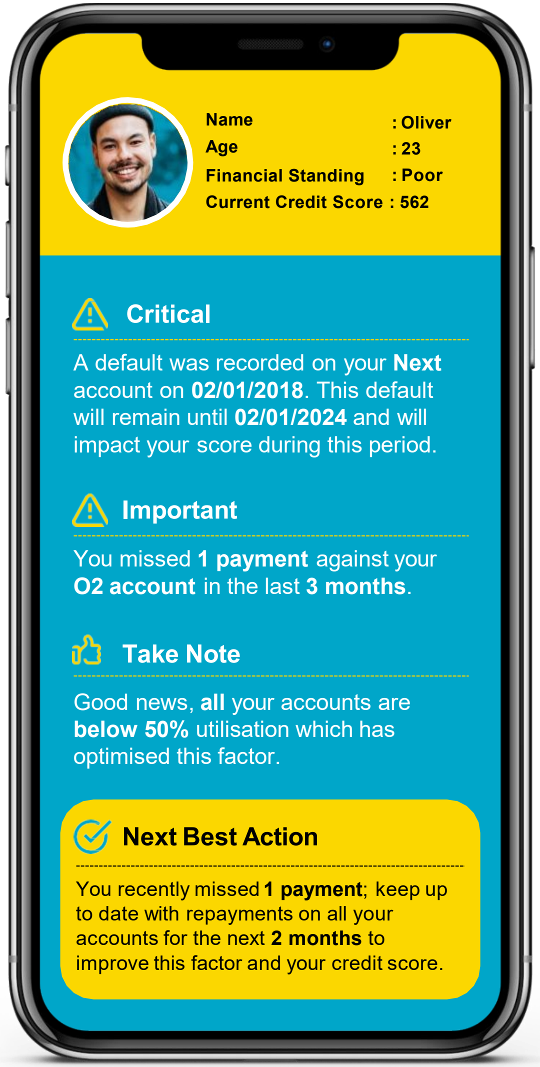
D Consumer Education and Financial Support: Help understand factors impacting credit score and opp. for improvement

Consumers should have 24/7 online access to their latest credit report and score



Allow Consumers to see their afford-ability rating alongside their credit score



Score Factors

Educates the consumer as to the factors currently impacting their credit score both positively and negatively

Next Best Action

Provides suggested tangible and personalised action that the consumer could take to improve their score

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FCA REGULATION OF CLAIMS MANAGEMENT COMPANIES

Greg Williams, Claims Management Department
Financial Conduct Authority

CONSUMER CREDIT TRADE ASSOCIATION

FCA regulation of Claims Management Companies

Consumer Credit Trade Association Summit
5 July 2022

Greg Williams
Manager, CMC Supervision Team

The FCA regime

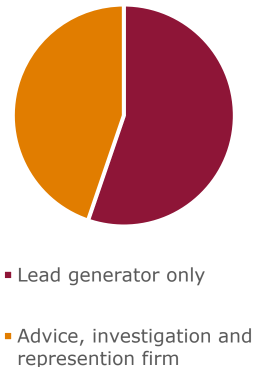
Seeking out, referrals or identification

Advice, investigation or representation

Personal injury | Financial Products / services | Employment | Housing disrepair | Industrial injuries benefit | Criminal injuries

CMC sector split (excluding lead generators)

Lead generators vs substantive permission CMCs



- Exclusions from the requirement for FCA authorisation include legal practitioners.
- Solicitors are regulated by the Solicitors Regulation Authority
- Barristers are regulated by the Bar Standards Board

Regulatory history of the CMC sector

Since the introduction of the Referral fee ban in 2013 there has been a continuing downward pressure on the CMC industry.

2013 - 2014

April 2013
Referral fee ban introduced prohibiting the industry standard model for personal injury CMCs.

December 2014
CMR granted power to impose financial penalties upon CMCs.

2015 - 2016

January 2015
Introduction of a complaints ombudsman with the Legal Ombudsman's jurisdiction extended to include CMCs.

March 2016
Independent review of claims management regulation published and government announcement that regulation will pass to the FCA.

2017 - 2018

March 2017
FCA announces deadline for PPI claims of 29 August 2019.

May 2018
Legislation outlining the transfer of regulation from the Claims Management Regulator to the FCA passed.

July 2018
Legislation introduced banning CMCs from cold calling

July 2018
Fee cap of 20% (plus VAT) implemented for PPI claims services.

2019 - 2020

January 2019
CMCs able to register for FCA temporary permissions.

April 2019
FCA becomes regulator of CMCs and introduction of tougher rules.

August 2019
Implementation of prudential requirements for CMCs and deadline to submit PPI complaints.

December 2019
Introduction of SMCR requirements for CMCs.

2021

April 2021
Implementation of Civil Liabilities Act (and raising of small claims limit) and introduction of small claims portal.

April 2021
CMC Department transitions into BAU supervision team

2022

March 2022
Introduced new rule restricting the fees CMCs charge for managing claims about non-PPI financial products and services through a fee cap. These rules also enhanced disclosure rules

June 2022
FCA issued to introduce new rules to prevent harm by stopping claims management phoenixing.

30

View of CMCs

- Poor public perception
- Previous poor conduct
- But can play an important role
- Transfer of regulation
  - Reauthorisation of all CMCs
  - New, tougher rules
  - Personal accountability via Senior Managers & Certification Regime

FCA's vision: CMCs to be trusted providers of high quality, good value services that help customers pursue legitimate claims for redress, and benefit the public interest

Some key successes

Removed around 30% of CMCs from the sector through re-authorisation process

Over 200 withdrawals of applications during the re-authorisation process, with 75% of these following our robust challenge

2 OIREQs (1 fundamental, 1 non-fundamental) issued

2 Financial Promotions Banning Orders issued

49 VREQs agreed with CMCs to complete their existing cases and cancel their permissions

25% drop in the number of contacts to the FCA about CMCs for the second half of 2021 compared to the first half

A third of CMCs ceased handling client money following challenge during multi-firm work

A joint FCA, FSCS and ICO statement on the use of data

Significant drop in the number of new complaints to FOS about CMCs for the second half of 2021 compared to the first half

12 CMC phoenixing VREQs agreed to prohibit failed advisors from benefitting from their poor advice

Harms and outcomes

- Misleading advertising
- Halo effect in unregulated business
- Inappropriate sourcing of potential customers
- Poor service standards
- Poor attitude to regulatory obligations
- Excessive and poorly disclosed fees
- Phoenixing

Emerging Themes

- **PPI remains the most prevalent claim type, although complaints have halved in the last month**
- **Housing Disrepair complaints have doubled in the last month (up to 10% of all contacts re CMCs)**
- **Contacts re investments claims continue to rise gradually, now 9% of all contacts re CMCs.**
- **Fraud, data theft and Google Ads – small number of cases reported**

Authorisations

- We continue to see a high proportion of applications of very poor quality resulting in a high level of rejections / withdrawals.

Applications for Authorisation	Since April 2019	In Last 6 Months
Total applications received	1073	27
Total applications refused, withdrawn, voided or rejected	322 (30%)	45
Number of applications approved	710	7
Number of applications to be determined	41	
Number of firms currently authorised with CMC permissions	661	
Firms cancelled in last 6 months		6

- Like any other firm, CMCs must meet - and continue to meet - our ‘threshold conditions’:

  - Location of offices
  - Effective supervision
  - Appropriate resources
  - Suitability
  - Business Model

Supervision

We are coming to the end of our 2 year supervision cycle and analysis of the sector is underway to decide our supervision strategy and priorities for the coming 2 years.	
Casework	April 2019 – May 2022 • Opened 1340 cases • Closed 1234 cases
Multi-firm work	To identify and mitigate any harms seen: • Client money • Financial promotions • Financial claims
Own initiative requirements	• 1 Fundamental, and 1 non-fundamental OIREQ imposed
Voluntary requirements	• 49 VREQs agreed to mitigate risks and/or ensure an orderly winddown. 35 of these firms have now either applied to cancel or vary their authorisation, or are in an enforcement process to remove their permissions. • c12 VREQs agreed on CMC phoenixing • 1 VREQ prohibiting new business and 2 VREQs requiring changes to advertising
Enforcement and cancellations	• 2 banning orders issued related to non-compliant advertising • 17 firms have submitted an application to cancel or vary their permissions. • Enforcement action has started has commenced against 4 firms with another 4 being considered for action.
Industry communications	• Dear CEO letters (spurious claims, Financial Promotions) • Dear Portfolio letter • Joint statement with FSCS and ICO

New policy interventions

New fee cap rules for financial services firms.

- Rules came into effect in March 2022

Rules to prohibit individuals from financial services firms benefiting from their own poor conduct

- Policy statement issued 7 June 2022
- Rules to come into effect on 7 July 2022

Key messages

- Our vision
  - Improved consumer protection
  - Increased professionalism
  - Increased levels of trust
- Think about how best to engage with CMCs
- Please pass us relevant intelligence: firm.queries@fca.org.uk

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UPDATE

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DEALING WITH CMCs

Our key objectives in this workstream:

CMCs	Tackling CMC behaviour and tactics
CMCs	Making members a harder target
FOS	Applying pressure through relevant bodies
FOS	Raising operational issues – Is FOS fit for purpose?

CMC ISSUES: PAST & PRESENT

Our key objectives in this workstream:

- Authority
- Conduct Rules
- Behaviour & Tactics
- Other evidence/information

CMC ISSUES: CLOSING COMMENTS & THOUGHTS

- **Impakt**

Member engagement & feedback

- What else are people able to share?
- Are there other CMCs we should be watching?
- What is the split between CMCs and legal firms?

CCTA UPDATE

- **Other FOS issues and activity**

Wider CCTA activity

- Advocacy
- Insight
- Network

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